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SIPDIS

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E.O. 12958: N/A

TAGS: [FAIR](#) [ECON](#) [GR](#) [OLYAIR](#)

SUBJECT: SPECULATION RAMPANT AS OLYMPIC AIRLINES GOES ON THE
AUCTION BLOCK ONCE AGAIN

SENSITIVE BUT UNCLASSIFIED -- HANDLE ACCORDINGLY

SUMMARY

[1](#)1. (SBU) After four previously failed efforts to sell Olympic Airlines (and its predecessor Olympic Airways), the Greek Government is making a new and probably final effort to sell the ailing national flag carrier. Rival Aegean Airlines is considered by some to be the front runner as final bids are due by the end of March, although Aegean owners themselves have indicated a certain ambivalence on the subject. Visions of Olympic Airlines' future after a sale vary according to the interlocutor, but most seem to agree that its staff will have to be slashed and its routes significantly restricted in order to keep it alive. Whatever its fate, Greek ministers and officials have stressed repeatedly that this tender is the real deal, and that Olympic's privatization must be accomplished by April to avoid EU injunctions as well as to show the government's willingness to proceed with other privatizations waiting in the wings. END SUMMARY.

BACKGROUND

[1](#)2. (SBU) After several efforts to first rescue and then to privatize ailing Olympic Airlines, the government is making a final attempt to sell flight operations, ground handling and technical services of the Greek flag carrier. This is the second attempt to sell Olympic Airlines after its restructuring and separation from Olympic Airways in 2003, and the fifth attempt to sell the airline overall. The new Olympic Airlines continues to operate at a loss however, losing 23 million euros in 2003 and reportedly an amount equal to a third of its total revenue in 2004.

[1](#)3. (SBU) On February 25, a short list of five bidders was approved by the Inter-ministerial Committee of Privatization (which includes the Ministers of Economy, Transportation and Employment). The five bidders will be asked to submit binding offers by the end of March. According to our information, this list includes Aegean Airlines (a Greek private sector carrier), German budget carrier DBA, Britannia Aviation International Services, Greek-American Chrysler Aviation and another Greek-American investor consortium. Olympic Airlines employs about 1,850 people and has a fleet of 36 airplanes of which 14 are Boeing 737-300s and -400s. The book value of the company is 115 million euros, but this is considered an optimistic price by industry analysts.

AEGEAN IN THE PICTURE

[1](#)4. (SBU) Ambassador has had discussions on separate occasions with two of the primary owners of Aegean Airlines about the Olympic tender. The bottom line for Aegean is not whether it wins the tender, but rather that Olympic Airlines lose its privileged state-supported position. Aegean believes that with a one-third reduction of staff and the trimming of unprofitable routes Olympic could operate successfully. However, the real issue for Aegean is that it is competing with a company that has been given millions of euros in subsidies, benefited from a corporate split that sent most its debt to its sister company, and is exempt from paying into the very expensive state-operated pension system (IKA). Aegean also aspires to serve non-EU routes, the bilateral rights for which at present are all allocated to Olympic.

OTHERS SPECULATE

[1](#)5. (SBU) Akrivos Tsolakis, currently Chairman of the Air Accident Investigation and Aviation Safety Board and former Olympic pilot, told us Aegean's bid is the most serious. He thought that Aegean would use Olympic's fleet and flight schedules to cover European destinations, but would cut

transatlantic routes. On the other hand, Stephanos Costopoulos, AmCham President and former Director of Delta Airline's Athens office, told ECON Counselor that if Aegean won the bid it would keep Olympic's access to Europe and the U.S., and slash domestic routes.

16. (SBU) A Greek official at the Ministry of Transportation stressed that the Olympic problem has to be resolved before April because of a European Court of Justice (ECJ) action pending against the Greek airline for receiving illegal government aid of about 200 million euros a few years ago. In his opinion, international investment company Lazard's selection as lead sale advisor for the tender was encouraging due to Lazard's experience and familiarity with the market.

COMMENT

17. (U) According to reports from Brussels, the Commission continues to follow Olympic's privatization closely. In January the EU Advocate General recommended that the GoG be ordered to reclaim from Olympic Airways some 200 million euros in illegal subsidies given during the late 1990s. This action is complicated by the Olympic Airways/Airlines split, although neither company has liquid assets to cover the repayment. Greece claims the funding amounted to only 46 million dollars.

18. (SBU) Greek Minister of Transportation Liapis told us that he has an agreement with the EU Transport Commissioner that, if Olympic is privatized by April, the EU will not take action on the subsidies that would jeopardize the company's future. Whether this is true or not remains to be seen. The fact that this is a serious political issue for the current government cannot be disputed. The New Democracy government, now celebrating its first year in power, is under increasing pressure to show its commitment to privatization. The Olympic Airlines sale has highlighted the problems faced by a Greek government that seeks to trim unprofitable state-owned enterprises, while coping with social unrest from a labor force long accustomed to lifetime employment, early retirements, and generous pensions. Other sectors in line for privatization are telecommunication, energy, and maritime ports, and all eyes are on the Olympic sale as an indication of how the government intends to see privatization through. Although New Democracy inherited the Olympic problem, how it chooses to resolve it might be the government's economic legacy. END COMMENT.

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